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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

ROBERT "BOB" BURNS - Chairman
 BOYD DUNN
 SANDRA D. KENNEDY
 JUSTIN OLSON
 LEA MÁRQUEZ PETERSON

DEC 17 2019

DOCKETED BY

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In the matter of)

SEAN ZARINEGAR a.k.a. SEAN ZAR a.k.a.)
 BEJAHN ZARRINNEGAR and KORI)
 ZARINEGAR, husband and wife,)

JACK COMBS and NANCY COMBS,)
 husband and wife,)

PERFORMANCE REALTY)
 MANAGEMENT, LLC, an Arizona limited)
 liability company,)

AMERICAN REALTY PARTNERS, LLC,)
 an Arizona limited liability company,)

CORIX BIOSCIENCE, INC., a Wyoming)
 corporation, formerly known as CORIX)
 BIOSCIENCE, INC., a Maryland corporation,)
 formerly known as AMERICAN HOUSING)
 INCOME TRUST, INC., a Maryland)
 corporation,)

Respondents.)
)

DOCKET NO. S-21073A-19-0063

DECISION NO. 77495

**ORDER TO CEASE AND DESIST, ORDER
 FOR RESTITUTION, AND ORDER FOR
 ADMINISTRATIVE PENALTIES AGAINST
 AMERICAN REALTY PARTNERS, LLC
 AND CORIX BIOSCIENCE, INC.**

On March 29, 2019, the Securities Division ("Division") of the Arizona Corporation Commission ("Commission") filed a Notice of Opportunity for Hearing Regarding Proposed Order to Cease and Desist, Order for Restitution, and Order for Administrative Penalties (the "Notice") against Respondents American Realty Partners, LLC and Corix Bioscience, Inc. ("Defaulting Respondents").

On April 8, 2019, the Division served a copy of the Notice upon Defaulting Respondents by delivering it via certified mail to Paesano Akkashian Apkarian PC, a law firm which represented

1 Defaulting Respondents and agreed to accept service on their behalf. No request for a hearing or
2 answer to the Notice has been filed as of November 20, 2019.

3 **I.**

4 **FINDINGS OF FACT**

5 1. Sean Zarinegar, also known as Sean Zar, originally named Bejahn Zarrinnegar,
6 (“Zarinegar”) has been a resident of Arizona at all times relevant to this matter.

7 2. Jack Combs (“Combs”) has been a resident of Arizona at all times relevant to this matter.

8 3. Performance Realty Management, LLC (“PRM”) is a manager-managed limited liability
9 company organized under the laws of the state of Arizona on or around October 20, 2009.

10 4. At all relevant times, Zarinegar was a manager of PRM.

11 5. Equity Pacesetter, LLC (“EP”) is a manager-managed limited liability company
12 organized under the laws of the state of Arizona on or around October 28, 2009.

13 6. At all relevant times, PRM was the sole manager of EP.

14 7. Equity Pacesetter II, LLC (“EP II”) is a manager-managed limited liability company
15 organized under the laws of the state of Arizona on or around October 13, 2011.

16 8. At all relevant times, PRM was the sole manager of EP II.

17 9. Equity Pacesetter III, LLC (“EP III”) is a manager-managed limited liability company
18 organized under the laws of the state of Arizona on or around November 30, 2012.

19 10. At all relevant times, PRM was the sole manager of EP III.

20 11. American Realty Partners, LLC (“ARP”) is a manager-managed limited liability
21 company organized under the laws of the state of Arizona on or around September 3, 2013.

22 12. On or around November 26, 2013, EP, EP II, and EP III merged with and into ARP.

23 13. At all relevant times, PRM was the sole manager of ARP.

24 14. American Housing Income Trust, Inc. (“AHIT”) is a corporation organized under the
25 laws of the state of Maryland on or around May 4, 2015.

26 15. Zarinegar held the following positions at AHIT:

- 1 a) Director from at least May 6, 2015, to March 1, 2017;
- 2 b) Chairman of the board of directors from at least May 6, 2015, to May 14, 2015,
- 3 and from June 29, 2015, to March 1, 2017;
- 4 c) Chief executive officer from at least May 18, 2015, to October 12, 2015, and
- 5 from November 29, 2016, to March 1, 2017;
- 6 d) Chief financial officer from at least June 29, 2015, to March 1, 2017;
- 7 e) President from at least June 29, 2015, to October 12, 2015, and from November
- 8 29, 2016 to March 1, 2017; and
- 9 f) Treasurer from at least June 29, 2015, to March 1, 2017.

10 16. On or around May 4, 2017, AHIT changed its name to Corix Bioscience, Inc.

11 17. On or around June 20, 2017, Corix Bioscience, Inc. caused itself to convert into and

12 continue as Corix Bioscience, Inc. ("Corix") a corporation registered with the secretary of state of

13 Wyoming.

14 18. From 2010 through 2017, Zarinegar organized and operated several "fix and flip" or

15 "buy and hold" real estate companies which raised funds through a series of offerings of unregistered

16 securities in the form of membership units and shares of stock. In sum, EP, EP II, EP III, ARP, and

17 AHIT ("the Companies") and Zarinegar raised at least \$14,205,519 from investors.

18 19. During the offering process, the Companies and their agents, who were not registered

19 with the Commission to sell securities, made false and misleading representations to potential

20 investors. Zarinegar and the Companies then misappropriated certain investment proceeds.

21 ***Zarinegar's History***

22 20. From approximately March 15, 1995, to January 3, 2000, Zarinegar was registered

23 with the National Association of Securities Dealers ("NASD") in association with American Income

24 Securities ("AIS").

1 21. While associated with AIS, Zarinegar was the subject of an NASD arbitration in
2 which an AIS customer alleged fraud and misrepresentation in connection with the customer's
3 investment in two limited liability company private placements.

4 22. While associated with AIS, Zarinegar was the subject of another NASD arbitration in
5 which AIS customers alleged misrepresentations, unsuitability of investments, and breach of
6 fiduciary duty in connection with their investments in two limited partnerships.

7 23. While associated with AIS, Zarinegar was also the subject of a civil action in which a
8 customer alleged fraud and breach of fiduciary duty in connection with his investments in two limited
9 partnerships.

10 24. On or around April 19, 2000, Zarinegar filed a petition for bankruptcy in the United
11 States Bankruptcy Court, Central District of California.

12 25. Zarinegar's bankruptcy was precipitated by a high-risk investment that resulted in
13 large losses and Zarinegar's insolvency.

14 26. From approximately July 9, 2001, to April 8, 2005, Zarinegar was registered with the
15 NASD as a general securities representative in association with Malory Investments, LLC
16 ("Malory").

17 27. On or around July 5, 2007, the Alabama Securities Commission issued Administrative
18 Order No. CD-2007-0019 ("Alabama Order") against Zarinegar, Malory, and others.

19 28. Pursuant to the Alabama Order, the Alabama Securities Commission determined that
20 Zarinegar:

21 a) Engaged in dishonest or unethical business practices in connection with the
22 offer, sale, or purchase of securities;

23 b) Engaged in any act, practice or course of business, in connection with the
24 offer, sale or purchase of securities, which operates or would operate as a fraud or deceit upon any
25 person; and
26

1 c) Obtained money through the sale of securities by means of making untrue
2 statements or omitting to state facts necessary in order to make the statements made not misleading.

3 29. On or around July 6, 2007, the Securities Commissioner of Kansas issued a cease and
4 desist order (“Kansas Order”) against Zarinegar and Malory.

5 30. Pursuant to the Kansas Order, the Securities Commissioner of Kansas found that
6 Zarinegar and others engaged in a course of business, in connection with the offer, sale or purchase
7 of securities, which works or tends to work a fraud or deceit upon the purchaser.

8 31. On December 28, 2009, a civil lawsuit (“2009 Action”) was filed against Zarinegar
9 and others in Maricopa County Superior Court.

10 32. The Complaint in the 2009 Action alleged that Zarinegar conspired to commit fraud
11 in connection with a real estate transaction.

12 33. The claims against Zarinegar were settled in April 2010.

13 34. In July 2004, Zarinegar organized Housing Partners, Inc., later renamed Core Land &
14 Investments, Inc. (“Core Land”) under the laws of the state of Colorado.

15 35. Zarinegar was the president, secretary, and treasurer, and manager of Core Land.

16 36. Zarinegar’s duties at Core Land included real estate acquisition and development, and
17 supervision of capital structures, property management, leasing, maintenance, and construction.

18 37. From approximately July 2004 to August 2007, Core Land sold its stock to at least
19 197 investors in exchange for at least \$14,459,727.

20 38. Core Land ultimately failed, dissolved in December 2010, and the investments in it
21 were largely lost.

22 *Combs’ History*

23 39. On July 31, 1997, the Commission entered an Order to Cease and Desist, Order for
24 Administrative Penalties, and Consent to Same (“Arizona Combs Order”) against Combs.

40. Pursuant to the Arizona Combs Order, the Commission concluded that Combs violated the Arizona Securities Act's registration statutes by selling unregistered securities, and by selling securities while not being registered to do so.

41. Pursuant to the Arizona Combs Order, the Commission further concluded that Combs violated the Arizona Securities Act's antifraud statute by, in connection with the offers and/or sales of securities:

a) Making untrue statements of material fact and omitting to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and

b) Engaging in transactions, practices or courses of business which operated as a fraud or deceit upon offerees and/or investors.

42. On August 31, 1998, the Securities Commissioner of Kansas issued a Permanent Cease and Desist Order ("Kansas Combs Order") against Combs.

43. Pursuant to the Kansas Combs Order, the Securities Commissioner of Kansas concluded that Combs had violated the Kansas Securities Act by selling unregistered securities and by selling securities while not being registered to do so.

44. On March 1, 2005, the Securities Commissioner of Texas entered an Agreed Cease and Desist Order and Order Assessing Administrative Fine (“Texas Combs Order”) against Combs.

45. Pursuant to the Texas Combs Order, the Securities Commissioner of Texas concluded that Combs violated the Texas Securities Act by offering unregistered securities, and by offering securities while not being registered to do so.

Equity Pacesetter, LLC

46. From approximately May 2010 through February 2012, EP sold EP membership units (“EP Units”) to at least 59 investors (“EP Investors”) in exchange for at least \$3,295,401.

47. The EP Units were not registered with the Commission.

48. Some of the EP Investors were solicited via cold calls from EP or PRM.

1 49. Agents acting on behalf of EP or PRM provided certain EP Investors with a Private
2 Placement Memorandum and Operating Agreement (collectively, "EP Offering Documents") prior
3 to their investments.

4 50. Regarding EP's business plan, the EP Offering Documents provided that EP intended
5 "to engage in the business of purchasing real estate for the purpose of making cosmetic changes,
6 repairs and other enhancements in order to increase the value of the property, and then selling such
7 property. This process is generally referred to as 'fix and flip.'"

8 51. Regarding investor returns, the EP Offering Documents stated that:

9 a) Investors would receive a 10% "preferred return" each year;

10 b) Investors would receive distributions of EP's "net available cash flow,"
11 defined as the excess of gross cash receipts over cash disbursements, until their unreturned capital
12 contribution amounts were reduced to zero; and

13 c) Investors would receive distributions of 90% of EP's net available cash flow
14 after all unreturned capital contribution amounts were reduced to zero.

15 52. With respect to management and control of EP, the Offering Documents provided:

16 a) "Investors will have no voting rights and will not be permitted to take part in
17 the management or control of the Company's business.";

18 b) PRM was the manager of EP, and had the exclusive authority to manage the
19 day-to-day business and affairs of EP; and

20 c) PRM's "key personnel," included "Sean Zar," the manager of PRM, and
21 Combs, the "VP, Acquisitions" of PRM.

22 53. The EP Offering Documents provided the following information regarding
23 Zarinegar's qualifications:

24 a) "Mr. Zar brings more than 20 years of experience in operations evaluation,
25 investment and management of business including Real [*sic*] estate, development, construction,
26 finance, marketing and brokerage, among others";

1 b) “Mr. Zar possesses many years of experience in real estate management
2 including corporate strategic planning, partner development and relations, land acquisition,
3 entitlement processing and government relations, project planning and financing, land development
4 and new home construction.”;

5 c) “Sean has a unique combination of experience that provides a broad range of
6 knowledge that is needed to be successful in the challenging environment of today’s real estate
7 industry”;

8 d) “Prior to the liquidity crisis, Mr. Zar was actively involved in land acquisition,
9 development processes, financing, and management of multi-family and single-family projects. His
10 responsibilities involved land development, supervision of capital structures, property management,
11 leasing, maintenance and construction activities for its many subsidiary LLC’s and commercial
12 properties in Colorado Springs, Colorado.”; and

13 e) “Mr. Zar has been active as a real estate investor in Colorado Springs and
14 southern California and Arizona for several years, and also has more than 20 years [*sic*] business
15 experience in covering all aspects of the investment arena.”

16 54. Zarinegar verbally represented to at least one EP Investor that his superior skills and
17 past experience made him unusually well qualified to obtain the profits he promised the EP Investor.

18 55. Regarding Combs’ qualifications, the EP Offering Documents stated:

19 a) Combs is a “graduate in the masters [*sic*] program at USC Los Angeles and
20 has taught numerous classes in business and finance.”;

21 b) Combs’ “interest in the financial services industry led him to a career in the
22 investment banking industry with E.F. Hutton & Co.”; and

23 c) “In 1992 he moved to Scottsdale, Arizona and became involved in the real
24 estate opportunities.”

25 56. The EP Offering Documents did not disclose any information regarding the events in
26 Zarinegar’s or Combs’ history discussed in ¶¶ 26–51, *supra*.

1 57. The EP Offering Documents contained the following representations regarding the
2 offering and use of proceeds:

3 a) EP was offering 500 limited liability company units at a price of \$10,000 per
4 Unit, for a total aggregate price of \$5,000,000;

5 b) Offering expenses, defined as “costs and expenses incurred in connection with
6 this offering,” would be \$15,000;

7 c) Fees to real estate brokers would be 1.2% to 1.5% of the investment proceeds;
8 and

9 d) The remainder of the investment proceeds would be used on the purchase of
10 properties, renovation and improvement costs and expenses, insurance, and utilities, or would be
11 retained as cash reserves.

12 58. Zarinegar, PRM, and EP misappropriated certain investment proceeds from the EP
13 Investors, including at least \$46,843 which was used towards the purchase of a recreational vehicle
14 by KoriZ, LLC, a Colorado-organized limited liability company controlled by Kori Zarinegar.

15 59. Regarding management compensation, the EP Offering Documents provided:

16 a) The Manager (PRM) would receive an annual fee of 1% of EP’s cash receipts,
17 not to exceed \$90,000 per year;

18 b) The Manager would not receive any distributions until all preferred returns
19 had been paid and all members’ “Unreturned Capital Contribution Amounts” had been reduced to
20 zero; and

21 c) After all members’ unreturned capital contribution amounts were reduced to
22 zero, the Manager would receive a distribution in the amount of 10% of net available cash flow.

23 60. EP paid Zarinegar and PRM more than what was represented to the EP Investors in
24 the EP Offering Documents.

6 63. During the offering process, an agent acting on behalf of EP and/or PRM represented
7 to at least one EP investor that there was no risk associated with investing in EP Units.

65. Other than the payment of preferred returns, which ceased in 2012, the EP Investors have not received any return of or return on their investments.

12 66. From approximately December 2011 through October 2013, EP II offered and sold
13 EP II membership units (“EP II Units”) to at least 54 investors (“EP II Investors”) in exchange for at
14 least \$2,564,078.

16 68. Some of the EP Investors were solicited via cold calls from EP II or PRM.

69. Agents acting on behalf of EP II or PRM provided certain EP II Investors with a Private Placement Memorandum and Operating Agreement (collectively, “EP II Offering Documents”) prior to their investments.

70. Regarding EP II's business plan, the EP II Offering Documents provided that EP II intended "to engage in the business of purchasing real estate for the purpose of making cosmetic changes, repairs and other enhancements in order to increase the value of the property, and then sell such property. This process is generally referred to as 'fix and flip.'"

24 71. Regarding investor returns, the EP II Offering Documents stated that:

25 a) Investors would receive an 8% “preferred return” each year:

1 b) Investors would receive distributions of EP II's "net available cash flow,"
2 defined as the excess of gross cash receipts over cash disbursements, until their unreturned capital
3 contribution amounts were reduced to zero; and

4 c) Investors would receive distributions of 80% of EP II's net available cash flow
5 after all unreturned capital contribution amounts were reduced to zero.

6 72. With respect to management and control of EP II, the Offering Documents provided:

7 a) "Investors will have no voting rights and will not be permitted to take part in
8 the management or control of the Company's business.";

9 b) PRM was the manager of EP II, and had the exclusive authority to manage the
10 day-to-day business and affairs of EP II; and

11 c) PRM's "key personnel," included "Sean Zar," the CEO of PRM, and Combs,
12 a managing partner of PRM.

13 73. The EP II Offering Documents provided the following information regarding
14 Zarinegar's qualifications:

15 a) "Mr. Zar brings more than twenty years [*sic*] experience in operations,
16 evaluation, investment and management of real estate assets";

17 b) Zarinegar "also was the founder and CEO of American Income Securities, an
18 investment company with more than \$50 million in client assets. He also managed a technology
19 venture capital fund where he was responsible for equity and debt investments in a wide variety of
20 companies."; and

21 c) "Mr. Zar has been an active real estate investor in Arizona as well as Colorado
22 and Southern California."

23 74. Regarding Combs' qualifications, the EP II Offering Documents stated:

24 a) Combs is a "graduate in the masters [*sic*] program at USC Los Angeles and
25 has taught numerous classes in business and finance.";

1 b) Combs' "interest in the financial services industry led him to a career in the
2 investment banking industry with E.F. Hutton & Co."; and

3 c) "In 1992 he moved to Scottsdale, Arizona and became involved in the real
4 estate opportunities."

5 75. The EP II Offering Documents did not disclose any information regarding the events
6 in Zarinagar's or Combs' history discussed in ¶¶ 26–51, *supra*.

7 76. The EP II Offering Documents contained the following representations regarding the
8 offering and use of proceeds:

9 a) EP II was offering 500 limited liability company units at a price of \$10,000
10 per Unit, for a total aggregate price of \$5,000,000;

11 b) Offering expenses, defined as "costs and expenses incurred in connection with
12 this offering," would range from \$1,500 to \$15,000 depending on the number of EP II Units sold;

13 c) Fees to real estate brokers would be 1.2% to 1.5% of the investment proceeds;
14 and

15 d) The remainder of the investment proceeds would be used on the purchase of
16 properties, renovation and improvement costs and expenses, insurance, and utilities, or would be
17 retained as cash reserves.

18 77. Regarding management compensation, the EP II Offering Documents provided:

19 a) The Manager would receive an annual fee of 1% of EP II's cash receipts, not
20 to exceed \$90,000 per year;

21 b) The Manager (PRM) would not receive any distributions until all preferred
22 returns had been paid and all members' "Unreturned Capital Contribution Amounts" had been
23 reduced to zero; and

24 c) After all members' unreturned capital contribution amounts were reduced to
25 zero, the Manager would receive a distribution in the amount of 20% of net available cash flow.

26 78. The EP II Offering Documents did not disclose that EP had never been profitable.

1 79. EP II paid Zarinegar and PRM more than what was represented to the EP II Investors
2 in the EP II Offering Documents.

3 80. On or around January 14, 2013, EP II purchased a residential property on Mountain
4 Cove Drive in Phoenix, Arizona (“Mountain Cove Property”) for \$533,000.

5 81. On or around March 1, 2013, Zarinegar caused EP II to transfer the Mountain Cove
6 Property to KoriZ. Upon information and belief, EP II was not fully compensated for the Mountain
7 Cove Property.

8 82. Zarinegar and Kori Zarinegar have resided at the Mountain Cove Property since at
9 least March 2013.

10 83. EP II was not profitable during any year of its existence.

11 84. The EP II Investors have not received any return of or return on their investments.

12 ***Equity Pacesetter III, LLC***

13 85. From approximately March 2013 through November 2013, EP III offered and sold
14 EP III membership units (“EP III Units”) to at least 27 investors (“EP III Investors”) in exchange for
15 at least \$1,038,000.

16 86. The EP III Units were not registered with the Commission.

17 87. Some of the EP III Investors were solicited via cold calls from EP III and PRM.

18 88. Agents acting on behalf of EP III or PRM provided certain EP III Investors with a
19 Private Placement Memorandum and Operating Agreement (collectively, “EP III Offering
20 Documents”) prior to their investments.

21 89. Regarding EP III’s business plan, the EP III Offering Documents provided that EP III
22 intended “to engage in the business of purchasing real estate for the purpose of making cosmetic
23 changes, repairs and other enhancements in order to increase the value of the property, and then rent
24 such property to tenants.”

25 90. Regarding investor returns, the EP III Offering Documents stated that:

26 a) Investors would receive an 8% “preferred return” each year;

1 b) Investors would receive distributions of EP III's "net available cash flow,"
2 defined as the excess of gross cash receipts over cash disbursements, until their unreturned capital
3 contribution amounts were reduced to zero; and

4 c) Investors would receive distributions of 70% of EP III's net available cash
5 flow after all unreturned capital contribution amounts were reduced to zero.

6 91. With respect to management and control of EP III, the Offering Documents provided:

7 a) "Investors will have no voting rights and will not be permitted to take part in
8 the management or control of the Company's business.";

9 b) PRM was the manager of EP III, and had the exclusive authority to manage
10 the day-to-day business and affairs of EP; and

11 c) PRM's "key personnel," included "Sean Zar," the chief executive officer of
12 PRM, and Combs, a managing partner of PRM.

13 92. The EP III Offering Documents provided the following information regarding
14 Zarinegar's qualifications:

15 a) "Mr. Zar brings more than twenty years [*sic*] experience in operations,
16 evaluation, investment and management of real estate assets";

17 b) Zarinegar "also was the founder and CEO of American Income Securities, an
18 investment company with more than \$50 million in client assets."; and

19 c) "Prior to founding PRM, Mr. Zar founded and served as the President and
20 CEO, a director and the principal shareholder of Core Land & Investments, Inc., a Colorado
21 corporation, formerly Housing Partners, Inc. ("CORE") for eight (8) years."

22 93. Regarding Combs' qualifications, the EP III Offering Documents stated:

23 a) Combs is a "graduate in the masters [*sic*] program at USC Los Angeles and
24 has taught numerous classes in business and finance.";

25 b) Combs' "interest in the financial services industry led him to a career in the
26 investment banking industry with E.F. Hutton & Co."; and

1 c) "In 1992 he moved to Scottsdale, Arizona and became involved in the real
2 estate opportunities."

3 94. The EP III Offering Documents did not disclose any information regarding the events
4 in Zarinegar's or Combs' history discussed in ¶¶ 26–51, *supra*.

5 95. The EP III Offering Documents also included a paragraph titled "Prior Performance
6 of Manager," which stated that since November 2010, PRM had purchased 51 properties at an
7 average purchase price of \$152,374. The paragraph also stated that 34 of the homes were resold for
8 an average price of \$187,511, and the other 17 homes were rentals with an average rental rate of
9 \$1,330 per month.

10 96. The EP III Offering Documents did not disclose that neither EP nor EP II had ever
11 been profitable.

12 97. The EP III Offering Documents contained the following representations regarding the
13 offering and use of proceeds:

14 a) EP III was offering 300 limited liability company units at a price of \$10,000
15 per unit, for a total aggregate price of \$3,000,000;

16 b) Offering expenses, defined as "costs and expenses incurred in connection with
17 this offering," would be \$15,000;

18 c) Fees to real estate brokers would be 1.2% to 1.5% of the investment proceeds;
19 and

20 d) The remainder of the investment proceeds would be used on the purchase of
21 properties, renovation and improvement costs and expenses, insurance, and utilities, or would be
22 retained as cash reserves.

23 98. Regarding management compensation, the EP III Offering Documents provided:

24 a) The Manager would receive a quarterly fee of 1% of EP III's total revenue,
25 not to exceed \$90,000 per year;

26

b) The Manager (PRM) would not receive any distributions until all preferred returns had been paid and all members' "Unreturned Capital Contribution Amounts" had been reduced to zero; and

c) After all members' unreturned capital contribution amounts were reduced to zero, the Manager would receive a distribution in the amount of 30% of net available cash flow.

99. EP III and Zarinegar misappropriated certain investment proceeds from the EP III Investors, including at least \$11,268 which was used to partially pay for a vehicle for Combs.

100. EP III paid Zarinegar and PRM more than what was represented to the EP III Investors in the EP III Offering Documents.

101. EP III was not profitable during any year of its existence.

102. The EP III Investors have not received any return of or return on their investments.

American Realty Partners, LLC

103. From approximately July 2013 through June 2015, ARP offered and sold ARP membership units (“ARP Units”) to at least 6 investors (“ARP Investors”) in exchange for \$4,487,531 in cash and/or real estate.

104. The ARP Units were not registered with the Commission.

105. Some ARP Investors were solicited via cold calls from ARP or PRM.

106. Agents acting on behalf of ARP provided certain ARP Investors with a Private Placement Memorandum and Operating Agreement (collectively, “ARP Offering Documents”) prior to their investments.

107. Regarding ARP's business plan, the ARP Offering Documents provided that ARP intended "to engage in the business of purchasing real estate for the purpose of making cosmetic changes, repairs, and other enhancements in order to increase the value of the properties, and then rent such property to tenants. ARP intends to rent each property for a period of 12 months from acquisition and then resell the property."

108. Regarding investor returns, the ARP Offering Documents stated that:

1 a) Investors would receive an 8% “preferred return” each year;

2 b) Investors would receive distributions of ARP’s “net available cash flow,”
3 defined as the excess of gross cash receipts over cash disbursements, until their unreturned capital
4 contribution amounts were reduced to zero; and

5 c) Investors would receive distributions of 70% of ARP’s net available cash flow
6 after all unreturned capital contribution amounts were reduced to zero.

7 109. With respect to management and control of ARP, the Offering Documents provided:

8 a) “Members will have limited voting rights and will not be permitted to take part
9 in the management or control of ARP’s business.”;

10 b) PRM was the manager of ARP, and had the exclusive authority to manage the
11 day-to-day business and affairs of ARP; and

12 c) PRM’s “key personnel,” included “Sean Zar,” the Chief Executive Officer of
13 PRM, and Combs, a Managing Partner of PRM.

14 110. The ARP Offering Documents provided the following information regarding
15 Zarinegar’s qualifications:

16 a) “Mr. Zar brings more than twenty years [*sic*] experience in operations,
17 evaluation, investment and management of real estate assets”;

18 b) “Mr. Zar brings investment experience to the company as well as experience
19 having formed successful business partnerships”; and

20 c) “Mr. Zar has been an active real estate investor in Arizona, as well as Colorado
21 and Southern California. Prior to founding PRM, Mr. Zar founded and served as the President and
22 CEO, a director and the principal shareholder of Housing Partners, Inc., and was actively involved
23 in land acquisition, development processes, financing, and management of multi-family and single-
24 family projects.”

25 111. Regarding Combs’ qualifications, the ARP Offering Documents stated:
26

1 a) Combs is a “graduate in the Masters program at University of Southern
2 California (USC) and has taught numerous classes in business and finance.”;

3 b) Combs’ “interest in the financial services industry led him to a career in the
4 investment banking industry with E.F. Hutton & Co.”; and

5 c) “In 1992 he moved to Scottsdale, Arizona and became involved in the real
6 estate opportunities.”

7 112. The ARP Offering Documents did not disclose any information regarding the events
8 in Zarinegar’s or Combs’ history discussed in ¶¶ 26–51, *supra*.

9 113. The ARP Offering Documents did not disclose that EP, EP II, and EP III had never
10 been profitable.

11 114. The ARP Offering Documents contained the following representations regarding the
12 offering and use of proceeds:

13 a) ARP was offering 1,000 limited liability company units at a price of \$10,000
14 per Unit, for a total aggregate price of \$10,000,000;

15 b) Offering expenses, defined as “costs and expenses incurred in connection with
16 this offering,” would be \$30,000;

17 c) Fees to real estate brokers would be 1.2% of the investment proceeds; and

18 d) The remainder of the investment proceeds would be used on the purchase of
19 properties, renovation and improvement costs and expenses, insurance, and utilities, or would be
20 retained as cash reserves.

21 115. Regarding management compensation, the ARP Offering Documents provided:

22 a) The Manager would receive an annual fee, paid quarterly, of the greater of
23 \$120,000, or 1% of ARP’s assets;

24 b) The Manager (PRM) would not receive any distributions until all preferred
25 returns had been paid and all members’ “Unreturned Capital Contribution Amounts” had been
26 reduced to zero; and

1 c) After all members' unreturned capital contribution amounts were reduced to
2 zero, the Manager would receive a distribution in the amount of 30% of net available cash flow.

3 116. ARP paid Zarinegar and PRM more than what was represented to the ARP Investors
4 in the ARP Offering Documents.

5 117. In addition, on or around March 13, 2017, Zarinegar caused ARP to convey a parcel
6 of land ("Joy Ranch") in Phoenix, Arizona to Larry J. Messmer, as Trustee of The Larry Messmer
7 Trust, dated September 30, 2006 ("Messmer Trust"). Upon information and belief, ARP was not
8 fully compensated for Joy Ranch.

9 118. The beneficiaries of the Messmer Trust at the time of the conveyance were Zarinegar,
10 Kori Zarinegar, and other members of Zarinegar's family.

11 119. ARP was not profitable during any year of its existence.

12 120. The ARP Investors have not received any return of or return on their investments.

13 *American Housing Income Trust, Inc.*

14 121. From approximately July 2015 through March 2017, AHIT sold its stock ("AHIT
15 Stock") to at least 54 investors ("AHIT Investors") in exchange for at least \$3,035,192 in cash and
16 real estate.

17 122. The AHIT Stock was not registered with the Commission.

18 123. Some AHIT Investors were solicited via cold calls from AHIT or PRM.

19 124. Nineteen of the AHIT Investors purchased \$2,325,326 in AHIT Stock during an
20 offering from July 2015 to December 2015 ("2015 Offering").

21 125. During the 2015 Offering, Zarinegar, and other agents acting on behalf of AHIT
22 provided certain AHIT Investors with offering documents, including a Private Placement
23 Memorandum ("AHIT PPM") and several brochures ("AHIT Brochures").

24 126. Regarding AHIT's business operations, the AHIT PPM stated that "the Company
25 intends on engaging in the business of purchasing real estate for the purpose of making cosmetic
26

1 changes, repairs, and other enhancements in order to increase the value of the properties, and then
2 rent such property to tenants.”

3 127. The AHIT PPM also stated AHIT had acquired all of the outstanding units of ARP,
4 and that ARP had therefore become a wholly-owned subsidiary of AHIT.

5 128. In a section titled “2014 YEAR IN REVIEW,” the AHIT PPM stated, “By many
6 measures, 2014 was an extraordinary year for American Realty, the Company’s wholly-owned
7 subsidiary and operating entity for our current management team.”

8 129. One of the AHIT Brochures included a chart purporting to show projected returns for
9 AHIT. The chart projected annual distributions of 8–10%, and a five-year return on investment of
10 71%.

11 130. Another AHIT Brochure provided a list of four “CORE Values,” which AHIT claimed
12 to be its “guiding principles.” The list included both “ethics” and “profitability.”

13 131. The AHIT PPM and Brochures did not disclose that ARP’s operations lost over
14 \$1,000,000 in 2014, or that EP, EP II, EP III had consistently lost hundreds of thousands of dollars
15 per year.

16 132. Regarding the qualifications of management, the AHIT Brochures stated that
17 “Management of the fund has more than 5 decades of combined experience in real estate distressed
18 asset acquisitions, disposition and rental and is a recognized leader in the Arizona foreclosure
19 market.”

20 133. The AHIT Brochures also identified Zarinegar as a board member, and stated that:

21 a) “Mr. Zarinegar brings more than twenty years of experience in operations,
22 evaluation, investment and management of real estate assets and is responsible for new asset
23 origination, evaluation, analysis and due diligence, as well as overall executive direction.”; and

24 b) “Mr. Zarinegar brings investment experience to the company as well as
25 experience having formed successful business partnership and has acquired a talented team of experts
26 necessary to support ongoing and future projects and opportunities.”

1 134. The AHIT PPM and Brochures did not disclose any information regarding the events
2 in Zarinagar's history as described in ¶¶ 26–44.

3 135. The AHIT PPM contained the following representations regarding the offering and
4 use of proceeds:

- 5 a) AHIT was offering 3,000,000 shares of AHIT Stock at \$3.00 per share;
- 6 b) Offering expenses would be \$50,000; and
- 7 c) The remainder of the proceeds would be used "towards the acquisition of
8 single family residences, and for operational costs associated with such acquisitions."

9 136. Regarding management of the properties, the AHIT PPM represented that AHIT
10 provided the property management services internally, and that by doing so it would foster
11 relationships with tenants and gain tighter control over the quality and cost of restorations and
12 property maintenance.

13 137. Beginning in June 2016, AHIT conducted another offering ("2016 Offering") during
14 which AHIT offered and sold AHIT stock to 35 AHIT Investors in exchange for \$709,866.

15 138. During the 2016 Offering, agents acting on behalf of AHIT provided certain AHIT
16 Investors with offering documents, including a prospectus ("AHIT Prospectus").

17 139. The AHIT Prospectus identified Zarinagar as the chairman of the board, chief
18 financial officer, and treasurer.

19 140. Regarding Zarinagar's qualifications, the AHIT Prospectus stated:

- 20 a) "Mr. Zarinagar brings more than twenty years of experience in operations,
21 evaluation, investment and management of real estate assets"; and
- 22 b) "Mr. Zarinagar brings investment experience to the company as well as
23 experience having formed successful business partnerships and has acquired a talented team of
24 experts necessary to support ongoing and future projects and opportunities."

1 141. Other than mentioning the existence of the cease and desist orders by the Kansas
2 Securities Commission and Alabama Securities Commission, the AHIT Prospectus did not disclose
3 any information regarding the events in Zarinegar's or Combs' history as described in ¶¶ 26–51.

4 142. Regarding the use of proceeds, the AHIT Prospectus stated:

5 a) Offering expenses would be approximately \$50,000, regardless of the amount
6 raised;

7 b) Consulting and management fees would be approximately 4.3% of the
8 investment proceeds; and

9 c) Approximately 72.4% of the proceeds would be used “towards the acquisition
10 of future properties consistent with the Company's plan to expand its revenue generating real estate
11 portfolio.”

12 143. Despite what was represented to the AHIT Investors, AHIT never purchased any new
13 properties with the investment proceeds.

14 144. Although ARP purchased two properties after it became a subsidiary of AHIT, the
15 properties were purchased at the beginning of the 2015 Offering and were purchased largely with
16 hard money loans. Specifically, ARP purchased:

17 a) A residential property purchased for \$193,800 in July 2015 using a \$165,000
18 loan; and

19 b) A residential property purchased for \$101,000 in September 2015 using an
20 \$80,000 loan.

21 145. AHIT was never profitable. Its net losses were \$2,766,424 in 2015 and \$4,429,692 in
22 2016.

23 146. In or around May 2017, AHIT changed its name to Corix Bioscience, Inc., ceased
24 operations as a real estate company, and began operating as a manufacturer of cannabidiol oil, a
25 cannabis derivative.

26 147. The AHIT Investors have not received any return of or return on their investments.

II.**CONCLUSIONS OF LAW**

148. The Commission has jurisdiction over this matter pursuant to Article XV of the Arizona Constitution and the Securities Act.

149. Defaulting Respondents offered or sold securities within or from Arizona, within the meaning of A.R.S. §§ 44-1801(16), 44-1801(22), and 44-1801(27).

150. From 2010 through 2012, EP offered and sold unregistered securities in the form of investment contracts, within or from Arizona, in violation of A.R.S. § 44-1841.

151. From 2011 through 2013, EP II offered and sold unregistered securities in the form of investment contracts, within or from Arizona, in violation of A.R.S. § 44-1841.

152. From 2013 through 2013, EP III offered and sold unregistered securities in the form of investment contracts, within or from Arizona, in violation of A.R.S. § 44-1841.

153. From 2013 through 2015, ARP offered and sold unregistered securities in the form of investment contracts, within or from Arizona, in violation of A.R.S. § 44-1841.

154. Beginning in 2015, AHIT offered or sold unregistered securities in the form of stock, within or from Arizona, in violation of A.R.S. § 44-1841.

155. EP, EP II, EP III, ARP, and AHIT offered or sold the foregoing securities within or from Arizona while not registered as dealers or salesmen pursuant to Article 9 of the Securities Act. This conduct violates A.R.S. § 44-1842.

156. EP, EP II, EP III, ARP, and AHIT, through the foregoing conduct, violated A.R.S. § 44-1991 by:

a) Making false or misleading representations to certain EP investors regarding Zarinegar's and Combs' qualifications, the use of investment proceeds, management compensation, using debt to purchase properties, and the risk associated with investment in EP;

b) Misappropriating certain investment proceeds from EP Investors;

1 c) Making false or misleading representations to certain EP II investors regarding
2 Zarinegar's and Combs' qualifications, the use of investment proceeds, returns to be paid to investors,
3 and management compensation;

4 d) Making false or misleading representations to certain EP III investors regarding
5 Zarinegar's and Combs' qualifications, the use of investment proceeds, returns to be paid to investors,
6 PRM's past performance, and management compensation;

7 e) Misappropriating certain investment proceeds from EP III Investors;

8 f) Making false or misleading representations to certain ARP investors regarding
9 Zarinegar's and Combs' qualifications, the use of investment proceeds, returns to be paid to investors,
10 and management compensation;

11 g) Making false or misleading representations to certain PRM investors regarding
12 Zarinegar's qualifications, the use of investment proceeds, returns to be paid to investors, and
13 management compensation;

14 h) Making false or misleading representations to certain AHIT investors regarding
15 Zarinegar's and Combs' qualifications, the use of investment proceeds, returns to be paid to investors,
16 and ARP's performance.

17 157. Pursuant to A.R.S. § 29-757, ARP is liable to the same extent as EP, EP II, and EP III
18 for their violations of the Securities Act.¹

19 158. On or around May 4, 2017, AHIT changed its name to Corix Bioscience, Inc. On or
20 around June 20, 2017, Corix Bioscience, Inc. caused itself to convert into and continue as Corix
21 Bioscience, Inc. ("Corix") a corporation registered with the secretary of state of Wyoming. Accordingly,
22 pursuant to Md. Code Ann., Corps. & Ass'ns § 3-904, and Wyo. Stat. Ann. § 17-16-1810, AHIT
23 continues to exist as Corix and Corix is liable to the same extent as AHIT for any violations by AHIT
24 of the Securities Act.

25
26 ¹ A.R.S. § 29-757 was repealed effective January 1, 2015, but the ARP merger occurred in 2013 while the statute was still in effect.

159. Defaulting Respondents' conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-2032.

160. Defaulting Respondents' conduct is grounds for an order of restitution pursuant to A.R.S. § 44-2032.

161. Defaulting Respondents' conduct is grounds for administrative penalties under A.R.S. § 44-2036.

III.

ORDER

THEREFORE, on the basis of the Findings of Fact, and Conclusions of Law, the Commission finds that the following relief is appropriate, in the public interest, and necessary for the protection of investors:

IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Defaulting Respondents, and any of Defaulting Respondent's agents, employees, successors and assigns, permanently cease and desist from violating the Securities Act.

IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent American Realty Partners, LLC shall, jointly and severally with all Respondents against whom orders are entered under Docket No. S-21073A-19-0063, pay restitution to the Commission in the principal amount of \$11,170,327.50 as a result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing account controlled by the Commission. Any principal amount outstanding shall accrue interest at the rate of 10 percent per annum from the date of purchase until the date of this Order.

IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondent Corix Bioscience, Inc. shall, jointly and severally with all Respondents against whom orders are entered under Docket No. S-21073A-19-0063, pay restitution to the Commission in the principal amount of \$3,035,192 as a result of the conduct set forth in the Findings of Fact and Conclusions of Law.

1 Payment is due in full on the date of this Order. Payment shall be made to the "State of Arizona" to
2 be placed in an interest-bearing account controlled by the Commission. Any principal amount
3 outstanding shall accrue interest at the rate of 10 percent per annum from the date of purchase until
4 the date of this Order.

5 IT IS FURTHER ORDERED that the restitution ordered in the preceding paragraphs will
6 accrue interest, as of the date of the Order, at the rate of the lesser of (i) ten percent per annum or (ii)
7 at a rate per annum that is equal to one per cent plus the prime rate as published by the board of
8 governors of the federal reserve system in statistical release H. 15 or any publication that may
9 supersede it on the date that the judgment is entered.

10 The Commission shall disburse the funds on a pro-rata basis to investors shown on the records
11 of the Commission. Any restitution funds that the Commission cannot disburse because an investor
12 refuses to accept such payment, or any restitution funds that cannot be disbursed to an investor
13 because the investor is deceased shall be disbursed on a pro-rata basis to the remaining investors
14 shown on the records of the Commission. Any funds that the Commission determines it is unable to
15 or cannot feasibly disburse shall be transferred to the general fund of the state of Arizona.

16 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent American
17 Realty Partners shall, jointly and severally with all Respondents against whom orders are entered
18 under Docket No. S-21073A-19-0063, pay an administrative penalty in the amount of \$500,000 as a
19 result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in
20 full on the date of this Order. Payment shall be made to the "State of Arizona." Any amount
21 outstanding shall accrue interest as allowed by law.

22 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent Corix
23 Bioscience, Inc. shall, jointly and severally with all Respondents against whom orders are entered
24 under Docket No. S-21073A-19-0063, pay an administrative penalty in the amount of \$200,000 as a
25 result of the conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in
26

1 full on the date of this Order. Payment shall be made to the "State of Arizona." Any amount
2 outstanding shall accrue interest as allowed by law.

3 IT IS FURTHER ORDERED that the administrative penalties ordered in the preceding
4 paragraphs will accrue interest at the rate of the lesser of (i) ten percent per annum or (ii) at a rate
5 per annum that is equal to one per cent plus the prime rate as published by the board of governors of
6 the federal reserve system in statistical release H. 15 or any publication that may supersede it on the
7 date that the judgment is entered.

8 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be
9 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments
10 shall be applied to the penalty obligation.

11 IT IS FURTHER ORDERED, that if any Defaulting Respondent fails to comply with this
12 order, the Commission may bring further legal proceedings against the Defaulting Respondent,
13 including application to the superior court for an order of contempt.

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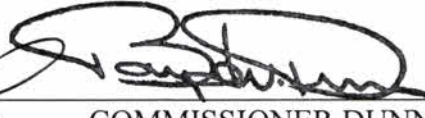



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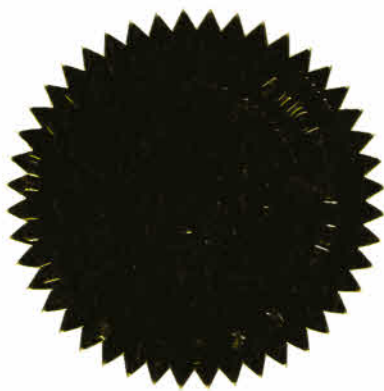
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1 IT IS FURTHER ORDERED that this Order shall become effective immediately.

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

3
4   
5 CHAIRMAN BURNS COMMISSIONER DUNN COMMISSIONER KENNEDY
6
7  
8 COMMISSIONER OLSON COMMISSIONER MARQUEZ PETERSON



13 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 17 day of December, 2019.

18
19 
20 MATTHEW J. NEUBERT
21 EXECUTIVE DIRECTOR

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DISSENT

DISSENT

This document is available in alternative formats by contacting Kacie Cannon, ADA Coordinator,
voice phone number (602) 542-3931, e-mail kcannon@azcc.gov.

CAN

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